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Parking A-Lot Overseas

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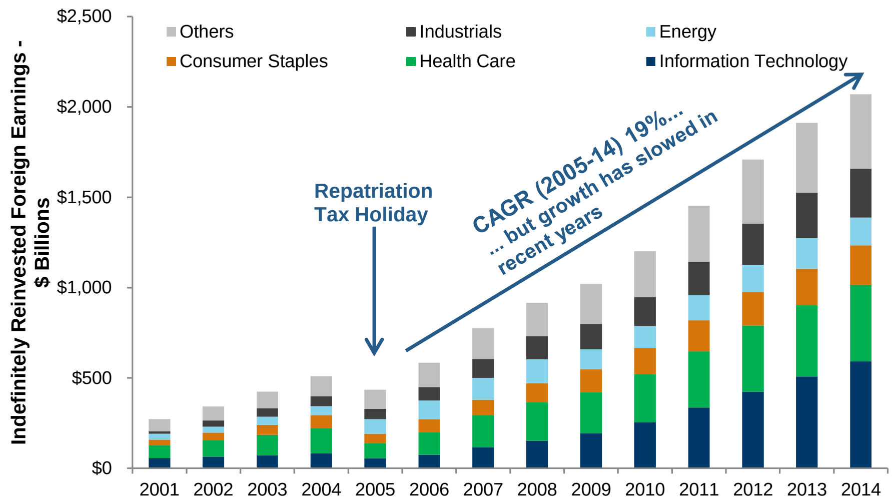
ACCOUNTING

At Least $690 Billion in Cash and Over $2 Trillion in Earnings

Exhibit 1: **Earnings Parked Overseas Continue to Pile Up, 2001-2014, S&P 500**



Source: Calcbench, Company data, Credit Suisse estimates

- **Earnings and cash parked overseas continue to hit new highs, but the growth has slowed.** Maybe companies need to repatriate funds back to the U.S. (for buybacks, dividends) or it's getting harder to claim the foreign earnings are "indefinitely reinvested" plus foreign profits have dropped. We estimate $301 billion was repatriated or earmarked for repatriation in 2014 by the S&P 500, that's the highest level since the last repatriation holiday.
- **Despite the cash "reservoir", "mountain", "pile", etc. balance sheets might not be as healthy or flexible as they appear.** That's because more than half the cash is overseas. We estimate there's a $533 billion off-balance-sheet tax liability on the earnings parked overseas. For 68 companies it's more than 5% of the market cap. Is any of that priced in?
- **Repatriation holiday, the good, the bad and the ugly.** On the bright side, the 14% tax rate/holiday in the Obama budget proposal is less than what companies would face if they brought back the earnings under current tax rules. But it's not all good news, it's a mandatory tax, even if companies want to reinvest overseas it would result in a $213 billion tax hit. Regardless, it's unlikely to pass unless part of a larger tax reform.

Parking A-Lot Overseas

The amount of earnings and cash parked overseas by the S&P 500 companies continue to hit new highs, the cumulative earnings parked overseas has crossed over the $2 trillion barrier (yes, that's trillion with a T) and there's at least $690 billion of overseas cash. However, the growth has slowed in recent years; for example the $157 billion in foreign earnings stashed away during 2014 was the lowest amount in the past five years, and it has fallen each year since hitting a peak of $253 billion in 2011.

Not all the earnings parked overseas are in cash (i.e., earnings and cash parked overseas are not one in the same).

Why the slowdown? Maybe companies needed to repatriate some of the funds back to the U.S. to buyback stock or pay dividends (e.g., our estimate of the domestic dividend payout ratio for the Health Care sector is more than 100%) or they are finding it harder to defend the claim that the earnings are "indefinitely reinvested" overseas (especially when its "reinvested" in a pile of cash). We estimate that amounts repatriated or earmarked for repatriation hit $301 billion in 2014 the highest level since the repatriation holiday in 2005.

Another explanation is that foreign profits have dropped (which they have over the last few years as you can see in Exhibit 5) and that could be due to a slowdown in business overseas, or a stronger dollar or maybe companies have scaled back on the shifting of profits to the lowest tax country they can find.

All of the focus on profit shifting and tax avoidance might be getting Corporate America's attention. From the OECD effort on base erosion and profit shifting, to the UK's proposed diverted profits tax (i.e., the Google tax), Ireland shutting down the Double Irish, negative press, Congressional hearings (there's one today on international taxation), the EU going after sweetheart tax deals, the Treasury department crackdown on inversions, tax reform, etc. From where we sit it looks like tax risk is on the rise and the companies that have been benefiting the most from the complexity in the system (i.e., those with the lowest tax rates) could see their tax rates head higher over time (we plan on exploring that in more detail in upcoming research).

Tax risk is on the rise.

Why You Should Care About Cash & Earnings Parked Overseas

Back to the topic at hand, earnings and cash parked overseas. But why should you care, you have enough to worry about, like filling in your NCAA bracket, or deciding the right shade of green to wear today? There are three simple reasons:

(1) Companies might have less financial flexibility than the balance sheet leads you to believe. Balance sheets are flush with cash and investors want to know what Corporate America's going to do with it. Will they reinvest in the business, make acquisitions, return it to the shareholders (in the form of dividends or buybacks) or pay down debt? But before you start drooling over all that cash, you should try and figure out where it is located. Because, if the cash is held by foreign subsidiaries and it's tied to earnings that have been parked overseas, it might stay there for quite some time to avoid a big tax hit in the U.S.

Keep in mind that some of the "overseas" cash is sitting in the U.S.

(2) Balance sheets might not be as healthy as they appear, especially after factoring in the off-balance sheet tax liability associated with the earnings parked overseas, which we estimate is $533 billion for the S&P 500 companies. Some companies might be hoping and praying for another repatriation holiday, like the 14% tax rate President Obama included in the budget proposal. But our Washington Policy team thinks that's highly unlikely unless it's part of a larger tax reform effort.

(3) Earnings quality concerns, if companies need the cash in the U.S. to return to shareholders or to support the domestic business that could call into question the sustainability of the tax rate. In addition if the foreign profits are being converted into restricted cash, does that change your view on earnings quality?

There's lots of good stuff in the report (we are a little biased), estimates of the off-balance-sheet tax liabilities and savings/hits from a repatriation holiday, how much cash is parked overseas, a domestic dividend payout ratio, concentrations of earnings and cash parked overseas (Tech, Health Care and a handful of companies) and a whole lot more.

Why do Companies Park Earnings Overseas?

The answer to that question can vary from company to company, but there are typically two main drivers, (1) genuine investment opportunities outside the U.S. and (2) taxes. Our focus is on the latter.

Remember, the U.S. is one of the few countries that still use a worldwide tax system (there are only five others in the OECD, Chile, Ireland, Israel, Republic of Korea and Mexico). As a result, all of the profits of a U.S. company, no matter where in the world they are earned (Bermuda, Cayman Islands, etc.) are *eventually* subject to U.S. tax, reduced by a foreign tax credit for taxes paid to other countries.

The key word in the previous sentence is "eventually." The U.S. will not tax the *active* profits (*passive* profits from interest income, royalties, etc. are supposed to be subject to immediate taxation under the Subpart F rules) of a U.S. company's foreign subsidiary until they are brought back to the U.S. (i.e., repatriated). In other words, keep the foreign earnings parked overseas and avoid U.S. taxation. That provides a temporary boost to cash flows and an economic savings as long as the company is earning a positive return on the funds that have yet to be paid to Uncle Sam. Keep in mind that the lower the return on those funds the lower the savings from deferring taxation (that's a real issue with so much of the unremitted earnings parked in cash, discussed below).

Cash Flow Boost - Keep the foreign earnings parked overseas and avoid U.S. taxation.

Not only can parking earnings overseas boost cash flows it can provide a boost to earnings too. As long as a company can claim that it has both the intent and ability to reinvest the foreign earnings *indefinitely* outside the U.S. it will not recognize a U.S. tax expense on the profits that it has parked overseas. Lower book tax expense means a lower effective tax rate and a boost to earnings. In fact having profits taxed at lower rates overseas is the main driver behind companies reporting lower effective tax rates.

Earnings Boost – Claim the foreign earnings are "indefinitely reinvested" and cut book tax expense

Off-Balance-Sheet U.S. Tax Liability

In addition to the positive impact on earnings, companies also avoid recognizing a U.S. deferred tax liability on the balance sheet by claiming that their foreign earnings are invested overseas indefinitely. However, companies are required to disclose an estimate of this liability in their tax footnote. But there's an out, they can avoid providing it by claiming that it's *impractical* to estimate. For example, here is what Mondelez International Inc. had to say in response to a comment letter from the SEC asking why it was "impractical" for the company to estimate the unrecognized deferred tax liability.

> *Numerous possible methods could be used to facilitate the repatriation of earnings to the U.S., and each would require evaluation of withholding taxes, evaluation of the local taxability of dividends as well as an analysis of the Company's historical tax position and the ability to use foreign tax credits. Furthermore, due to our complex legal entity structure, the number of jurisdictions involved, and the layers of regulatory requirements, all of which would have to be evaluated to determine the amount of allowable dividends between legal entities and ultimately to the U.S., such an effort would require a significant amount of Company resources. Because any estimate would not be meaningful due to the numerous assumptions upon which it would be based, and because of the significant resources this exercise would require, we determined that it is not practical for the Company to estimate the amount of unrecognized deferred tax liabilities.*

If the off-balance-sheet tax liability is impractical to estimate, how do companies decide whether or not it makes sense to keep the earnings parked overseas?

Over Half-A-Trillion $

As a result, only 69 companies out of the 310 in the S&P 500 (excluding REITs and companies domiciled outside the U.S.) that disclose how much in earnings they have parked overseas provide an estimate of the potential U.S. tax liability, which totaled $150 billion. For those companies the median additional tax liability is around 25% of the undistributed earnings (implying a median foreign effective tax rate of approximately 10%). For the remaining 241 companies we assumed the residual taxes due in the U.S. would be 25% of the earnings parked overseas and estimate the total unrecognized/undisclosed deferred tax liability is $384 billion. Add that all up ($150 billion + $384 billion) and we estimate there's a $533 billion (after rounding) off-balance-sheet U.S. tax liability tied to the $2.1 trillion in earnings parked overseas for the S&P 500 companies.

To get a sense for the magnitude of these off-balance-sheet U.S. tax liabilities, we compare them to the market cap for each company. We found 68 companies, where that potential tax liability was more than 5% of the market cap including the 14 companies in Exhibit 2, where it is more than 10%. Balance sheets might not be as healthy as they appear after factoring in this off-balance-sheet tax liability. Have you priced it in? If you're expecting that the earnings really are reinvested overseas indefinitely then you might not have to, but if the company wants to put the funds to work in the U.S. or return cash to you the shareholder (or creditor) then you should.

Balance sheets might not be as healthy as they appear after factoring in the off-balance-sheet U.S. tax liability

Exhibit 2: Estimated Off-Balance-Sheet Tax Liability Over 10% of Market Cap, S&P 500

$ in millions

Ticker	Company	Sector	Earnings Parked Overseas	Estimated Off-Balance-Sheet Tax Liability on Earnings Parked Overseas[1]	Market Cap[2]	Estimated Off-Balance-Sheet Tax Liability as % of Market Cap
MAT	MATTEL INC	Consumer Discretionary	$6,400	$1,600	$8,903	18%
OI	OWENS-ILLINOIS INC	Materials	2,900	725	4,296	17%
HPQ	HEWLETT-PACKARD CO	Information Technology	42,900	10,725	63,670	17%
DO	DIAMOND OFFSHRE DRILLING INC	Energy	2,400	600	4,173	14%
FSLR	FIRST SOLAR INC	Information Technology	2,400	840 [3]	5,992	14%
XRX	XEROX CORP	Information Technology	8,500	2,125	15,182	14%
CAM	CAMERON INTERNATIONAL CORP	Energy	5,100	1,275	9,120	14%
WU	WESTERN UNION CO	Information Technology	5,600	1,400	10,179	14%
GE[4]	GENERAL ELECTRIC CO	Industrials	119,000	29,750	261,654	11%
AVY[5]	AVERY DENNISON CORP	Materials	2,200	550	4,844	11%
BAX	BAXTER INTERNATIONAL INC	Health Care	13,900	4,200 [3]	37,519	11%
WDC	WESTERN DIGITAL CORP	Information Technology	8,200	2,700 [3]	24,716	11%
GNW	GENWORTH FINANCIAL INC	Financials	1,642	411	3,852	11%
A [6]	AGILENT TECHNOLOGIES INC	Health Care	5,700	1,425	14,175	10%

1: Off-balance-sheet tax liability estimated (unless disclosed) by applying a rate of 25% (which is the median for the companies that disclose the liability) on the indefinitely reinvested foreign earnings.

2: Market Cap as of 02/27/2015.

3: Off-balance-sheet tax liability disclosed by the company.

4: The lower tax rates on the indefinitely reinvested foreign earnings in 2014 provided a tax benefit of $2.3 billion.

5: Avery Dennison has recognized $4.4 million of deferred tax liabilities as of the end of fiscal 2014 for future repatriation of non-permanently reinvested earnings of its foreign subsidiaries. However, that amount is offset by a contra deferred tax liability of $6.3 million related to unrealized foreign exchange losses associated with the earnings of foreign subsidiaries that can be repatriated in the future. The net impact is a future tax benefit of $1.9 million when those earnings are repatriated.

6: As of October 31, 2014 the company has recognized a deferred tax liability of $61 million on foreign earnings that are not considered indefinitely reinvested.

Source: Calcbench, Company data, Credit Suisse estimates

These are rough estimates of the off-balance-sheet tax liabilities on the earnings parked overseas (they might even be impractical); most of the companies don't even provide their own estimate. As a result the companies may owe more or less in taxes than what we estimate if they were ever to repatriate their foreign earnings back to the U.S. In addition our estimates don't factor in time value (as is the case with all deferred tax liabilities and assets) therefore if a company can hold off on repatriating the foreign earnings that'll delay when the taxes are paid resulting in a smaller tax liability today on a present value basis (assuming they can generate a positive return).

Repatriation Holiday, The Good, The Bad and The Ugly (cue the theme music)

Our estimates of the off-balance-sheet tax liability are based on U.S. corporate tax rates today (federal rate is 35%). But what if there were another repatriation holiday? There sure have been plenty of proposals. For example the *Foreign Earnings Reinvestment Act* introduced last month by Senator John McCain (R-AZ) and Congressman Trent Franks (R-AZ), proposes a reduced rate of 8.75% or even 5.25% if certain conditions are met. There's the *Invest in Transportation Act* from Senators Barbara Boxer (D-CA) and Rand Paul (R-KY) which proposes a 6.5% repatriation tax rate and Congressman John Delaney's (D-MD) *Infrastructure 2.0 Act* which proposed an 8.75% rate. All of which would use the proceeds from the tax on earnings parked overseas to help fund our nation's highways (the Senate Finance Committee is supposed to find a funding mechanism by the end of May).

Heck, they've used pension funding relief to build highways, e.g., the *Moving Ahead for Progress in the 21st Century Act* (MAP-21) and the *Highway and Transportation Funding Act of 2014* (HATFA), why not a tax on earnings parked overseas?

Our Washington Policy team says "neither House nor Senate chief tax writers, nor Republican leadership has been dismissive of the President's proposals to…fund road construction and reform some business taxes." The team suspects "there is about a 25% chance Congress and the President could reach a repatriation deal before the 2016 presidential race consumes lawmakers i.e., by the end of this year. Early acrimony in Congress does not provide much hope that Congress and the President will reach a deal this year." Just to be clear it's unlikely for a repatriation holiday to pass on its own instead it would have to be part of a larger tax reform package.

It's unlikely for a repatriation holiday to pass on its own; it would have to be part of a larger tax reform.

How it Might Work

That said, President Obama's 2016 budget proposed a one-time tax on all earnings parked overseas and is part of a larger effort to reform the taxation of foreign profits. The proceeds of the "toll" tax would be used to fund the U.S. highway system. The earnings would be taxed at a reduced 14% rate whether or not they're repatriated (unlike the last repatriation holiday which was voluntary) and the tax will be paid ratably over five years. Companies would be allowed to use a portion (40%) of their foreign tax credits to reduce the tax due in the U.S. Here's a quick example of how it would work:

> Let's say a company is paying a 10% tax rate overseas, today they'd be able to claim a foreign tax credit for those taxes paid and if the foreign profits were repatriated back to the U.S. they'd owe Uncle Sam 25% (35% U.S. corporate tax rate – 10% foreign tax credit). Under the Obama proposal the unremitted foreign profits would be taxed at a 14% rate less a tax credit equal to 40% of the foreign tax paid or 4% in this example (40% x 10%). As a result the company would owe Uncle Sam 10% (14% tax rate – 4% foreign tax credit) or 40% of the 25% that they'd owe today.

Is it a Tax Savings or a Tax Hit? Depends Upon Your Expectations

Even though the tax is mandatory, companies would get a significant break compared to what they'd be required to pay upon repatriation under the current rules (though not as good as the 5.25% tax rate from the last repatriation holiday). Sounds like good news, but is it really? That depends on your expectations, if you have been factoring in the full off-balance-sheet tax liability into your analysis (maybe you were taking a tax haircut to the cash balance or you worked in a higher tax rate in your earnings model) then the lower rate is good news. On the other hand if you really have been expecting companies to keep the earnings parked overseas indefinitely, ignored the off-balance-sheet liability and gave companies full credit for the lower tax rate then this is an incremental tax hit and that could be bad news.

Bad news first (remember, we're accounting analysts), we estimate the tax hit from the Obama budget proposal as 40% of our estimate of the off balance sheet tax liability (see the *How it Might Work* discussion above for the logic behind our estimate). In the aggregate that's a $213 billion tax hit and it's more than 5% of market cap for eight companies. On the bright side the tax due is only 40% of what it would have been otherwise reducing the off balance sheet liability by 60% or $320 billion in the aggregate. We found 23 companies where that potential tax savings is more than 5% of market cap. In Exhibit 3, we show the ten companies with the biggest estimated savings/hit (depending upon your perspective) from the Obama budget proposal expressed as a percentage of market cap, of course it's the same companies with the largest estimated off-balance-sheet tax liabilities as a percent of market cap from Exhibit 2.

Exhibit 3: Top 10 Tax Hit/Savings from Obama 14% Repatriation Tax Proposal as a % of Market Cap

$ in millions

			The Good		The Bad		The Ugly	
		A	*B = D - C*		*C = D * 40%*		*D*	
Ticker	**Company**	**Earnings Parked Overseas**	**Estimated Repatriation Tax Savings Under the Obama Proposal**	**As a % of Market Cap[2]**	**Estimated Repatriation Tax Hit Under the Obama Proposal**	**As a % of Market Cap[2]**	**Estimated Repatriation Tax Hit Under the Current Rules[1]**	**As a % of Market Cap[2]**
MAT	MATTEL INC	$6,400	$960	11%	$640	7%	$1,600	18%
OI	OWENS-ILLINOIS INC	2,900	435	10%	290	7%	725	17%
HPQ	HEWLETT-PACKARD CO	42,900	6,435	10%	4,290	7%	10,725	17%
DO	DIAMOND OFFSHRE DRILLING INC	2,400	360	9%	240	6%	600	14%
FSLR	FIRST SOLAR INC	2,400	504	8%	336	6%	840 [3]	14%
XRX	XEROX CORP	8,500	1,275	8%	850	6%	2,125	14%
CAM	CAMERON INTERNATIONAL CORP	5,100	765	8%	510	6%	1,275	14%
WU	WESTERN UNION CO	5,600	840	8%	560	6%	1,400	14%
GE [4]	GENERAL ELECTRIC CO	119,000	17,850	7%	11,900	5%	29,750	11%
AVY	AVERY DENNISON CORP	2,200	330	7%	220	5%	550	11%

1: Off-balance-sheet tax liability estimated (unless disclosed) by applying a rate of 25% (which is the median for the companies that disclose the liability) on the indefinitely reinvested foreign earnings.

2: Market Cap as of 02/27/2015.

3: Off-balance-sheet tax liability disclosed by the company.

4: The lower tax rates on the indefinitely reinvested foreign earnings in 2014 provided a tax benefit of $2.3 billion.

Source: Calcbench, Company data, Credit Suisse estimates

If there is a repatriation holiday as part of a larger tax reform effort, you'd need to analyze the cost/benefit in relation to other changes being made, for example the Obama budget proposed a 19% minimum tax rate on foreign earnings. Do the benefits of "freeing" up trapped capital and the added financial flexibility offset the costs of a higher tax rate going forward? We'll be examining these and other exciting tax related issues in upcoming research.

Lots of Earnings & Cash Parked Overseas

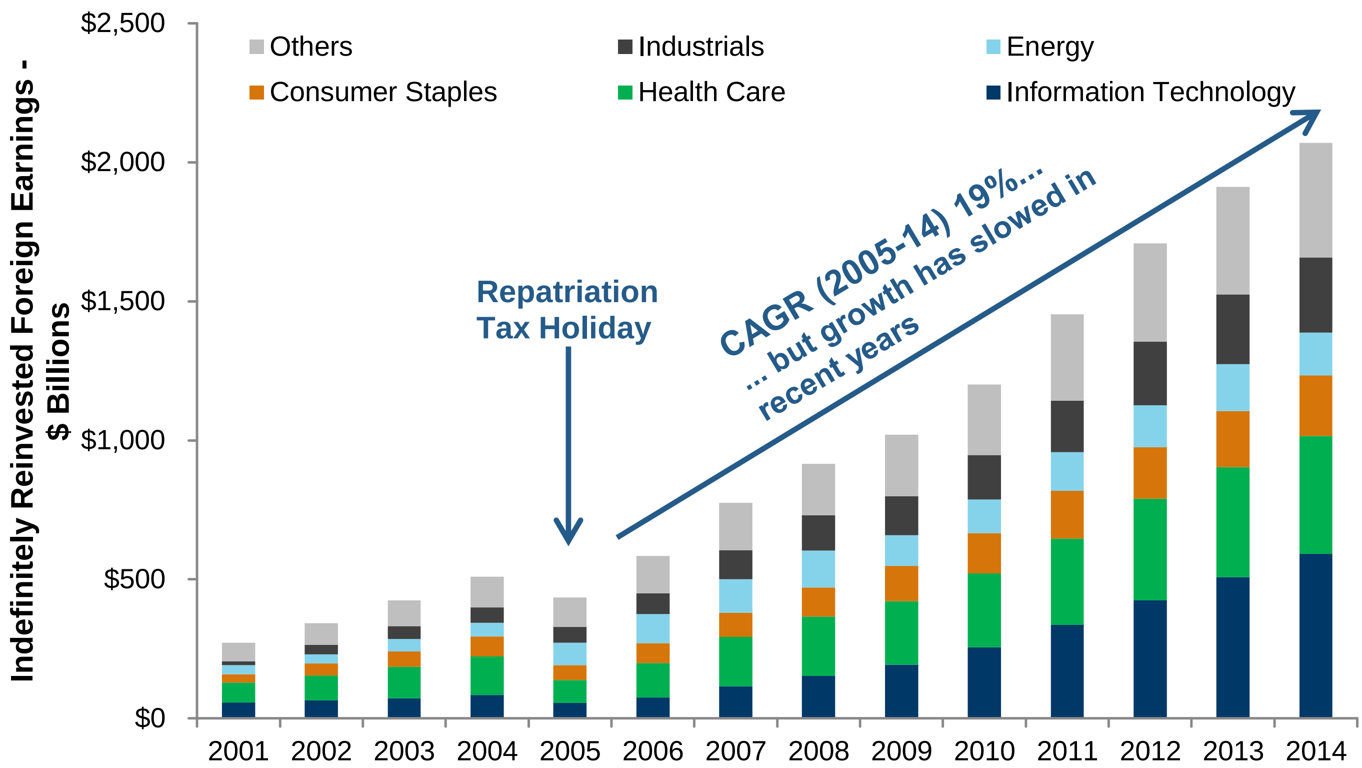
Companies are required to disclose the amount of indefinitely reinvested foreign earnings, once a year. This is the amount of foreign earnings parked overseas that the company has not yet recognized a U.S. tax liability on. You can usually find this information in the tax footnotes. For this report, we pulled together 14 years of this data for the S&P 500 companies.

Keep in mind that companies could have additional earnings parked overseas. For example, Apple has more unremitted foreign earnings than the $69.7 billion that it discloses as "indefinitely reinvested." How do we know? Because of the $21.5 billion deferred tax liability on an undisclosed amount of additional unremitted foreign earnings that Apple has recognized on its balance sheet.

Over $2 Trillion in Earnings Parked Overseas

As you can see in Exhibit 4, earnings parked overseas by the S&P 500 companies continue to pile up and have hit a new peak in 2014 reaching $2.1 trillion. Since the last repatriation holiday in 2005 (*American Jobs Creation Act*), it's grown at a compound annual rate of 19%. That impressive growth rate is due to some combination of companies doing more foreign business, profit shifting to low tax countries and companies keeping more earnings overseas to reinvest there or with hopes of another repatriation holiday.

Exhibit 4: Earnings Parked Overseas Now Over $2 Trillion, 2001-2014, S&P 500[1]



1: Excludes REITs and companies domiciled outside the U.S.

Source: Calcbench, Company data, Credit Suisse estimates

But the growth in the earnings parked overseas has slowed in recent years; the 8% growth in 2014 (see Exhibit 5) was the slowest since the repatriation holiday and the year-over-year increase in the aggregate earnings parked overseas ($158 billion in 2014) has fallen each year since hitting a peak of $253 billion in 2011. As you can see at the bottom of Exhibit 5 it appears to be a combination of declining foreign profits and an increase in our estimate of funds repatriated or marked for repatriation which at $301 billion has hit its highest level since 2005.

The 61 companies where the earnings parked overseas dropped year-over-year have played a part, maybe they needed to repatriate some of the funds back to the U.S. or they are finding it harder to defend the indefinitely reinvested claim. For example, in April 2014 eBay redesignated $9 billion of overseas earnings as no longer indefinitely reinvested and took a non-cash tax charge of $3 billion. Verisign repatriated $741 million in the second quarter of 2014, taking advantage of the tax shield provided by net operating losses from a 2013 worthless stock deduction.

Exhibit 5: **Ten Years of Earnings Parked Overseas by Sector, S&P 500**[1]

$ in billions	Indefinitely Reinvested Foreign Earnings										CAGR
Sector	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2005-14**
Consumer Discretionary	$24	$31	$38	$47	$53	$62	$88	$102	$110	$116	19%
Consumer Staples	53	72	87	104	126	144	172	185	201	218	17%
Energy	80	104	121	133	111	121	138	151	170	154	7%
Financials	44	59	82	85	109	128	150	169	184	197	18%
Health Care	83	125	178	214	228	267	312	366	395	425	20%
Industrials	57	75	105	126	141	160	186	229	251	270	19%
Information Technology	55	75	115	153	193	255	336	424	509	591	30%
Materials	33	39	47	50	54	59	66	75	82	91	12%
Telecommunication Services	3	3	1	1	1	1	2	2	2	1	-9%
Utilities	2	3	2	3	3	4	6	7	9	7	15%
S&P 500	**$434**	**$584**	**$776**	**$916**	**$1,020**	**$1,201**	**$1,454**	**$1,709**	**$1,913**	**$2,070**	**19%**
YoY Growth	**-15%**	**34%**	**33%**	**18%**	**11%**	**18%**	**21%**	**18%**	**12%**	**8%**	
Foreign Earnings (Pretax)	**$284**	**$354**	**$415**	**$402**	**$364**	**$441**	**$517**	**$486**	**$484**	**$459**	
Estimated Amount Repatriated or Earmarked for Future Repatriation	**$359**	**$205**	**$223**	**$261**	**$260**	**$260**	**$264**	**$230**	**$281**	**$301**	
Earnings Parked Each Year	**($75)**	**$150**	**$192**	**$140**	**$104**	**$181**	**$253**	**$255**	**$204**	**$158**	
Estimated Earnings Parked Each Year as a % of Total Foreign	**N/M**	**42%**	**46%**	**35%**	**29%**	**41%**	**49%**	**53%**	**42%**	**34%**	

1: Excludes REITs and companies domiciled outside the U.S.

Source: Calcbench, Company data, Credit Suisse estimates

Investors Need More Tax Transparency

Now a word (or two) on behalf of our sponsor (investors), taxes are a black box for investors and the disclosures leave a lot to the imagination. Take the earnings parked overseas, there's so much more we'd like to know that would be helpful in figuring out the potential tax implications associated with these couple trillion dollars.

For example, what's the potential tax hit if earnings were repatriated back to the U.S. which as we highlighted most companies don't disclose (even though it's required, but there's an out). It would also be nice to know the amount of foreign tax credits that are available to the company if it were ever to repatriate. Further disaggregation of the earnings parked overseas by country could provide investors with some additional clues, like if the majority of the earnings were parked in a tax haven country where little economic activity takes place that might be a signal that the tax rate is not sustainable. It would also be helpful to get some additional detail behind what's driving the changes in the earnings parked overseas, is it new foreign profits parked overseas, old profits now tagged as "indefinitely reinvested", amounts being repatriated, etc. That could provide some insight into whether the tax rate was driven by current period results or stuff that's happened in the past.

There might be a little bit of help on the way, as part of its disclosure framework project, the FASB is proposing that companies provide some additional information related to income taxes, including the following:

- Income before taxes split between domestic and foreign earnings (the SEC already requires this disclosure). Foreign earnings would be further disaggregated for any country that is significant to total earnings.
- Domestic tax expense recognized in the period for taxes on foreign earnings.
- Undistributed foreign earnings that are no longer "indefinitely reinvested" along with an explanation as to why. Separate disclosure should be made for any country that is significant to the disclosed amount.

- Indefinitely reinvested foreign earnings for any country that represents at least 10 percent of the total.

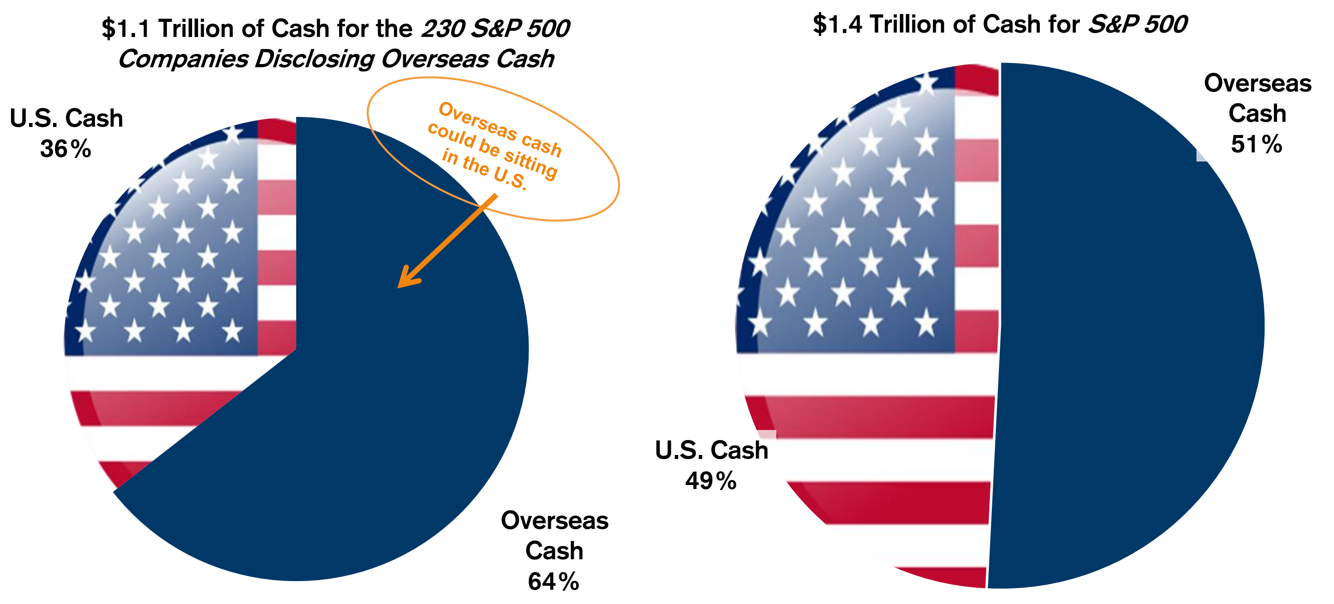
At Least $690 Billion in Cash Parked Overseas

Up until this point we have been focusing on the earnings parked overseas, what about the cash (remember earnings and cash parked overseas are not one in the same).

In an era where central banks around the world are flooding their economies with liquidity, it's not surprising to find corporates with record levels of cash. Investors are wondering how companies will deploy it all, will the cash be used to invest in the business (capex), buy another company (M&A), pay a dividend, buy back some stock or pay down debt. Before you dream up ways for them to spend it all, you might want to get a sense for where in the world it's located. Because if it's parked overseas the company might have to take a big tax hit before it can put the cash to work in the U.S.

There's a small problem, companies are not required to tell you where their cash is located (though the SEC has been prodding companies to do so) and most don't. As a result we found only 230 companies in the S&P 500 that give you some idea of where their cash is located (we typically find this information in the Liquidity and Capital Resources section of the MD&A). Those 230 companies hold $1.1 trillion in cash and $690 billion or 64% of it is held by overseas subsidiaries (see left side of Exhibit 6). In fact there are 83 companies where the overseas cash is more than 75% of the total cash on the balance sheet and a handful of companies (Ralph Lauren Corp, Hewlett-Packard Co, FMC Technologies Inc., Brown-Forman, Pall Corp, Coca-Cola Enterprises Inc., Sigma-Aldrich Corp, Coach Inc., Illinois Tool Works) where all (or substantially all) of the cash appears to be overseas.

Exhibit 6: Location of Cash, S&P500



Note: S&P 500 excludes Financials, REITs and companies domiciled outside the U.S. Total cash includes cash, cash equivalents and short-term investments. Analysis assumes overseas cash is zero for companies that don't disclose it. When the overseas cash amount disclosed by a company includes long term investments, it is prorated to exclude long term investments.
Source: Compustat, Company data, Credit Suisse estimates

If we assume the overseas cash is immaterial for the remaining S&P 500 companies that don't disclose it, we estimate that overseas cash is about 51% of the $1.4 trillion in aggregate cash for the S&P 500 (see right side of Exhibit 6). That assumption is probably a bit of a stretch, especially for companies like (International Business Machines, Procter & Gamble Co and Exxon Mobil Corp) with more than $40 billion in earnings parked overseas that don't disclose overseas cash (maybe its immaterial, or maybe the companies have just decided not to provide the information).

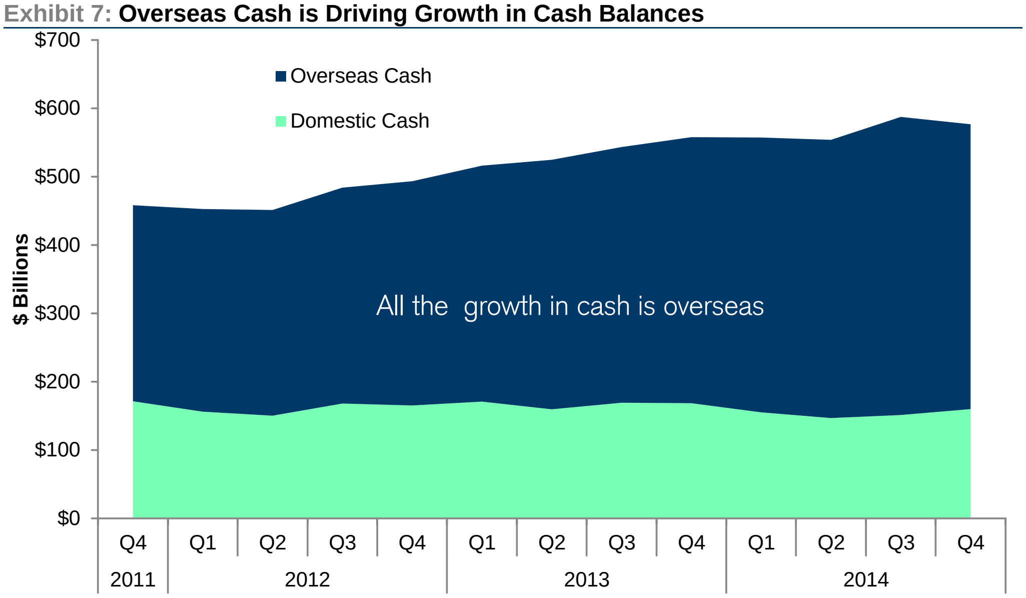
As with many other disclosures, there is a lot of variation in the information that we get from companies on overseas cash (especially since it's provided voluntarily). Most companies include only cash, cash equivalents and short-term investments but some (20 companies) include other long-term investments. For our analysis, we exclude long-term investments (to be consistent and to stick with more traditional definitions of cash). For example, excluding the $130 billion of long-term marketable securities for Apple leaves $25 billion of cash, cash equivalents and short-term investments. Assuming the same U.S. / non-U.S. split ($137 billion /$155 billion) we arrive at $22 billion in overseas cash for Apple.

Most of the companies disclose a dollar amount of overseas cash, some provide percentages, there's a few that describe their overseas cash as approximately half, majority, substantial majority and substantially all, we transformed those into 50%, 67%, 85% and 100% respectively.

Overseas Cash is Driving Growth in Cash Balances

Not only is the overseas cash a large part of the total cash balance but it's also a key driver behind the growth in cash over the last few years. As you can see in Exhibit 7, where all of the growth in cash is overseas for the 103 companies that have provided quarterly disclosures on overseas cash since the fourth quarter of 2011. In fact the growth in overseas cash for these 103 companies accounts for 56% of the growth in the aggregate cash balance for the entire S&P 500 (ex-financials). If we include the other 127 companies that disclose overseas cash (though not as frequently) then all (and a little bit more) of the growth in the cash balances for the S&P 500 appear to be coming from overseas.

Exhibit 7: Overseas Cash is Driving Growth in Cash Balances



Note: Analysis includes only the 103 S&P 500 (Ex-Financials) companies that have disclosed overseas cash for all the quarters starting from 2011 Q4 to 2014 Q4 (calendar).

Source: Company data, Credit Suisse estimates

So Close, Yet So Far, "Overseas" Cash in the U.S.

Keep in mind that when we refer to cash parked overseas, it's cash held by foreign subsidiaries. That cash may be held in foreign countries or the foreign subsidiary could have set up an account here in the U.S. That would still be considered cash parked overseas though it's sitting in the good ole US of A in a bank account or invested in US Treasury bonds, mutual funds, or stocks of unrelated companies etc.

According to the Permanent Subcommittee on Investigations majority staff study from 2011, *Offshore Funds Located Onshore*, a good chunk of the "overseas cash" may have found its way into the U.S. financial system. The study found that on average 46% of the undistributed foreign earnings were invested in U.S. assets for the 27 companies surveyed at the end of FY2010 (see Exhibit 8). Note that in most cases the percentage highlighted is based on undistributed foreign earnings, so when you focus on just the cash held by foreign subsidiaries, the piece that is invested in U.S. assets could be even higher.

Exhibit 8: So Close, Yet So Far – Foreign Subsidiaries Hold Substantial U.S. Assets

Percentage of Undistributed Accumulated Foreign Earnings Held in U.S. Bank Accounts or U.S. Investments At the End of FY2010

0 - 25%	26% - 50%	51% - 75%	76% - 100%
Bristol-Myers Squibb	Coca-Cola	Oracle	Adobe*
CA Technologies	Devon Energy	Motorola	Apple*
Duke Energy	DuPont*	PepsiCo*	Broadcom
Eli Lilly	Intel		Cisco
Hewlett-Packard			Google
Honeywell			EMC
IBM			Microsoft
Eastman Kodak			Johnson & Johnson
Merck			Qualcomm*
Pfizer			
Procter & Gamble			

** Figures reflect their U.S. dollars and investments as a percentage of their foreign cash.*

Source: U.S. Senate Permanent Subcommittee on Investigations survey data,
OFFSHORE FUNDS LOCATED ONSHORE MAJORITY STAFF REPORT ADDENDUM, December 14, 2011

Even though the "overseas" cash might be in the U.S. it is still not accessible to the U.S. parent company (to pay dividends, buy back stock, etc.) until it pays Uncle Sam his share limiting the company's ability to allocate its own capital. Generally companies would prefer to have the flexibility to move their cash around the world as they see fit without having to worry about the tax implications (another reason for tax reform).

At Least One-Third of Earnings Might be Parked Overseas in Cash

Even with more than $2 trillion in earnings parked overseas companies are not required to disclose how those earnings have been reinvested. So it's unclear whether the earnings have been reinvested back into the business through capex, inventory purchases, etc. or indefinitely reinvested in a bank account. For the 217 companies that disclose both overseas cash and earnings parked overseas it appears as if 45% of the earnings parked overseas are sitting in cash as you can see in Exhibit 9.

We make a couple of assumptions here, first is that all of the overseas cash is tied to unremitted earnings which may not be the case, (e.g., GE highlights that of the $61.1 billion in overseas cash only $12.2 billion is considered indefinitely reinvested) and we assume the rest of the earnings parked overseas have been reinvested in the business (which we know is not true, because of the $163 billion in long-term marketable securities).

Exhibit 9: Earnings Parked Overseas Held in Cash and Reinvested, S&P-500 (ex-Financials)

$ in billions	S&P 500 (ex - Financials) companies reporting Overseas Cash					S&P 500 (ex - Financials)			
	A	B		C = B - A	D = B / A	E	F	G = E - F	H = F / E
Sector	Earnings Parked Overseas	Overseas Cash[1]	Overseas Long Term Investments	Estimated Earnings Reinvested	Estimated % of Earnings Parked in Cash	Earnings Parked Overseas	Overseas Cash[1]	Estimated Earnings Reinvested	Estimated % of Earnings Parked in Cash
Consumer Discretionary	$83	$38	$3	$46	45%	$116	$38	$78	32%
Consumer Staples	127	42	-	85	33%	218	42	176	19%
Energy	55	12	-	43	22%	154	12	142	8%
Health Care	401	130	20	271	32%	425	130	295	31%
Industrials	257	103	1	154	40%	270	103	167	38%
Information Technology	529	344	138	185	65%	591	344	248	58%
Materials	72	18	0	54	26%	91	18	73	20%
Telecommunication Services	-	0	-	(0)	-	1	0	1	4%
Utilities	7	3	-	4	48%	7	3	4	48%
Total	**$1,531**	**$690**	**$163**	**$841**	**45%**	**$1,873**	**$690**	**$1,183**	**37%**

Note: Analysis excludes Financials, REITs and companies domiciled outside the U.S.

1: Overseas cash as of the end of the last fiscal year ending on or before 12/31/2014. When the overseas cash amount disclosed by a company includes long term investments, it is prorated to exclude long term investments. If long term investments are included that will add another $163 billion.

Source: Calcbench, Company data, Credit Suisse estimates

If we assume that the overseas cash is immaterial for the remaining 158 S&P 500 (ex-financials) companies that don't disclose it, then it looks like about 37% of the earnings parked overseas for the S&P 500 (ex-financials) is in cash (right side of Exhibit 9).

Are the Earnings Really Indefinitely Reinvested?

With so much of the earnings parked overseas kept in cash, in fact there are 87 companies where it's more than half cash, you begin to wonder whether the earnings are truly "reinvested indefinitely." Remember, it's a judgment call, the company must have both the intent and ability to indefinitely reinvest the earnings overseas (i.e., to postpone taxation in the U.S.).

To support this claim companies need to take a number of factors into account, including: cash flow forecasts, liquidity needs and financing requirements of both the U.S. parent and the foreign sub, both long-term and short-term operational and financial objectives (i.e., budgets), potential M&A (in the U.S. and abroad), tax consequences of repatriation, etc. To boil it down can the company meet its cash flow needs in the U.S. and does it have a plan to reinvest overseas. See APB 23 *Accounting for Income Taxes, Other Considerations or Special Areas* (ASC 740-30) for the guidance in this area.

The company's plan to reinvest overseas and cash flow needs in the U.S. are the keys to determining if reinvestment is indefinite.

We use Google as an example of how a company goes about defending the assertion that its earnings are indefinitely reinvested overseas. In response to an SEC comment letter, Google laid out its case to reinvest the earnings it has parked overseas, $20-$30 billion would go toward foreign M&A, $2-$4 billion for overseas capex and $12-$14 billion for intercompany charges associated with R&D cost sharing agreements. In addition the company highlighted its "ready access to the Capital/Debt markets" in the U.S. plus U.S. operations and liquidity as to why it could meet its cash flow needs in the U.S. For Google's full response check out *Appendix A*.

Domestic Dividend Payout Ratio

So how long can companies continue to claim that these earnings are parked overseas indefinitely? That'll depend upon two things, their plans to reinvest overseas and their cash flow needs in the U.S. (capex, dividends, debt service, buyback, etc.) as compared with their ability to generate cash in the U.S. and access to financing.

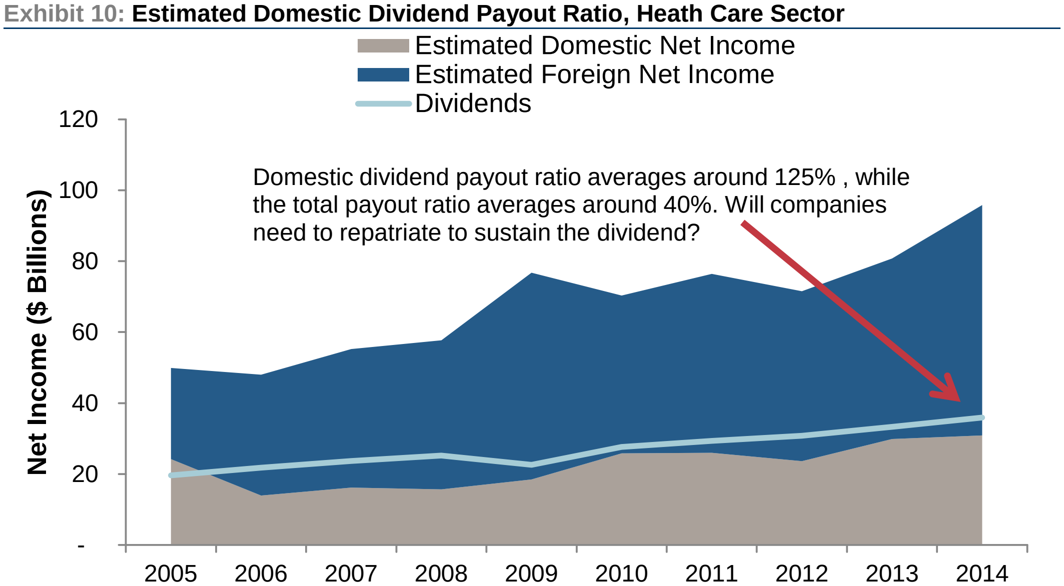
Companies have found ways to effectively access their trapped cash; some have raised significant amounts of low-cost debt in the U.S. like Apple, Cisco, Microsoft, etc. while others have been more creative using intercompany loans (e.g., Boston Scientific and Hewlett Packard).

For some companies the time has come to repatriate or no longer claim the earnings are indefinitely reinvested. For example, Stryker Corp is planning to repatriate $2 billion in the second half of 2015. To prepare for that they redesignated a similar amount as no longer indefinitely reinvested last year and took a tax hit to earnings, which they actually expect to pay in 2015. The company had suggested that this tax hit (5% tax rate) is similar to what was payable under the last repatriation tax holiday. Other companies seem to be waiting for another repatriation holiday. For example, under the Obama budget proposal Stryker would probably pay a tax rate of around 2% (i.e., 40% of what they are paying today).

One way of getting a sense for whether companies might need to repatriate sooner rather than later is to breakdown the dividend payout ratio into its U.S. and non-U.S. components. The more that the payout ratio relies upon foreign earnings the more pressure there is on companies to repatriate or to back off from the claim that the earnings are indefinitely reinvested.

In Exhibit 10, we compare dividends paid against our estimate of domestic net income and total net income for the 41 companies in the Health Care sector that have disclosed some amount of earnings parked overseas. For this group of companies, the estimated domestic payout ratio hovers around 115% (compared to about 50% for the S&P 500) in recent years and averages about 125% over the last ten years. In other words, they are paying more in dividends than our estimate of the net income attributed to their U.S. business.

Exhibit 10: Estimated Domestic Dividend Payout Ratio, Heath Care Sector



Note: Analysis includes the 41 S&P 500 Health Care companies (excluding those that are domiciled outside the U.S.) that have disclosed some amount of earnings parked overseas. Pretax income numbers are from the tax footnotes. If a company does not breakdown the pretax income into domestic and foreign components, all of their pretax income is assumed to be domestic. Domestic net income is calculated as domestic pretax income less domestic tax expenses (tax expenses are again broken down in the tax footnotes). Foreign net income is calculated as foreign pretax income less foreign tax expenses.

Source: Calcbench, Compustat, Company data, Credit Suisse estimates

With a domestic dividend payout ratio that's greater than 100% you wonder how a company can meet its other cash flow obligations in the U.S and sustain the dividend. Of course, they could always access the cash parked overseas to help out but in many cases that would result in the company paying U.S. taxes and taking a hit to earnings.

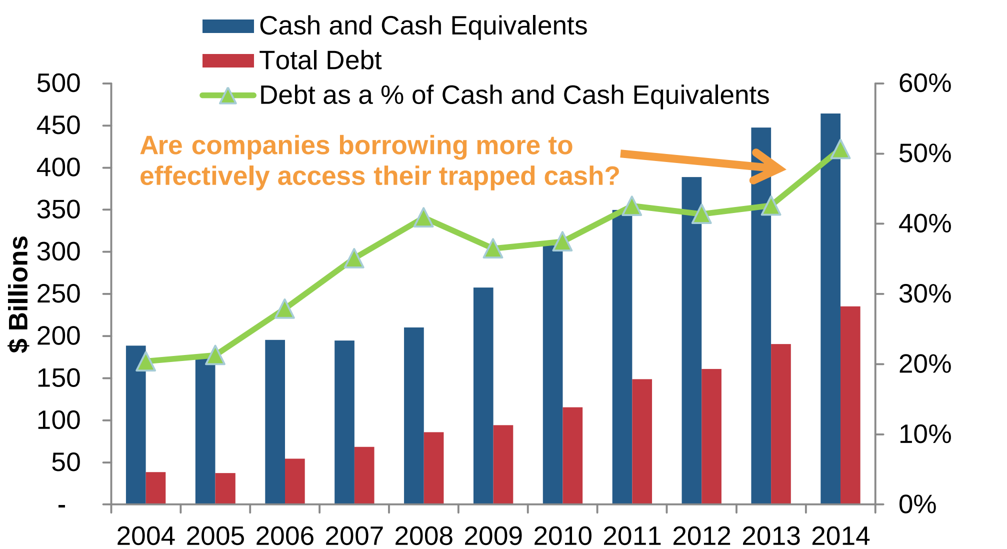
Many large health care companies have been paying steady and sizeable dividends. So, you would expect the valuation to be at least partly tied to the dividend. To keep paying dividends, they might need cash which is trapped outside the U.S. Is that why the health care sector seems to be under more pressure to invert or otherwise find tax efficient ways to access the cash parked overseas?

Even Flush with Cash Companies Continue to Borrow

For the tech sector, the domestic payout ratio has been around 70% in recent years, which at first glance looks a bit more comfortable. However, many tech companies return cash to shareholders in the form of buybacks (or so they say; in our opinion, a good chunk of the buybacks is simply to offset the earnings dilution from stock-based compensation, we'll leave that discussion for another day).

In any case, there has been increasing pressure on companies to return more cash to the shareholders in one way or another. Many large tech companies that are sitting on piles of cash have recently raised debt, it's as if they are repatriating without the tax hit. As you can see in Exhibit 11, for the 53 tech companies that have disclosed cash parked overseas, the ratio of debt to cash and cash equivalents has been rising. It has gone up from 43% in 2013 to 51% in 2014. Maybe, these companies are less levered compared to the health care companies and can afford to raise more debt. But, how long can that last?

Exhibit 11: Debt as a % of Cash and Cash Equivalents, S&P 500 Tech Sector

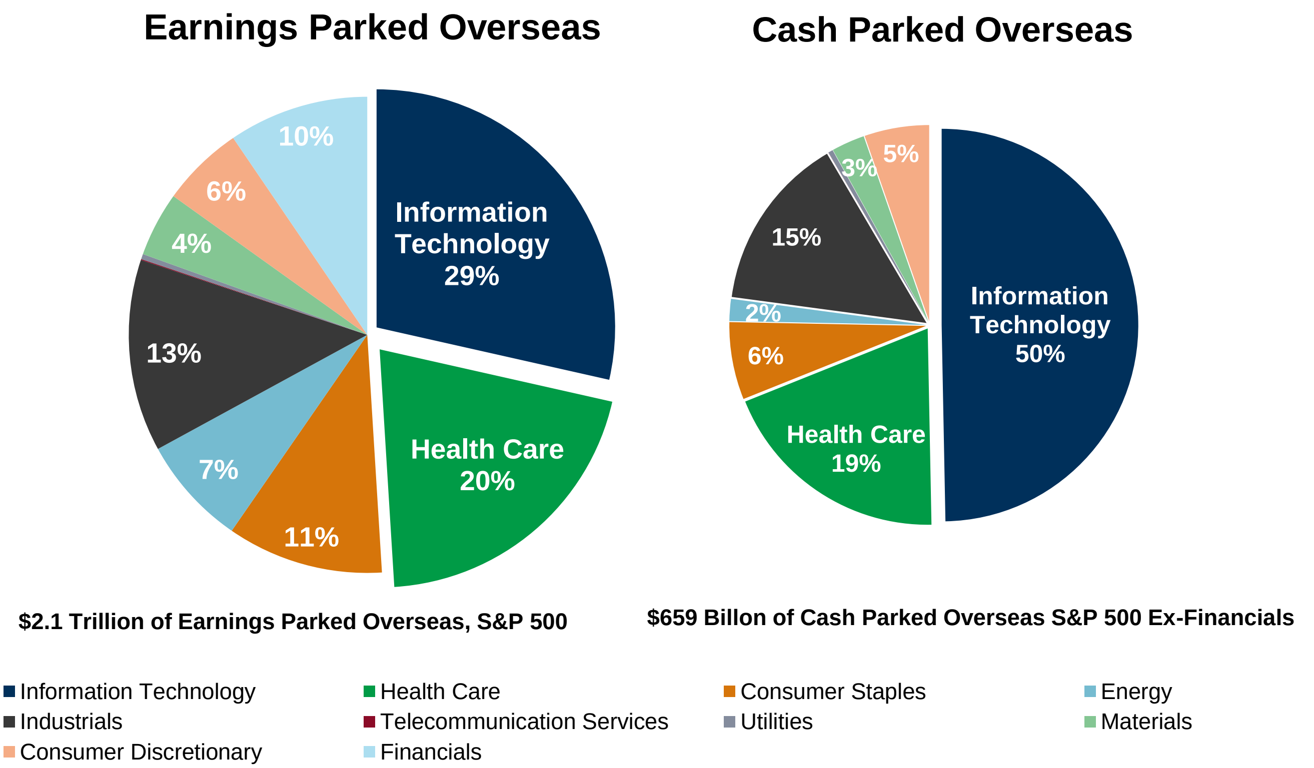


Note: Analysis includes the 53 S&P 500 Tech companies (excluding those that are domiciled outside the U.S.) that have disclosed some amount of cash parked overseas. Total debt includes short term and long term debt. Cash includes cash, cash equivalents and short term investments.
Source: Company data, Credit Suisse estimates

Earnings & Cash Parked Overseas are Highly Concentrated

No surprise, two sectors (Tech and Healthcare) continue to dominate the earnings parked overseas by the S&P 500 companies accounting for nearly half the total in 2014 (despite making up just 36% of the total market cap) which you can see on the left side of Exhibit 12. The concentration is even more pronounced when we take a look at the cash parked overseas on the right side of Exhibit 12. Here, the Tech sector is about half of the total overseas cash balance on its own and Health Care is only 19%.

Exhibit 12: **Earnings and Cash Parked Overseas, by Sector**



Note: Earnings parked overseas analysis includes the 346 S&P 500 companies (excluding REITs and companies domiciled outside the U.S.) that disclosed the data. Cash parked overseas analysis includes the 230 S&P 500 companies (excluding Financials, REITs and companies domiciled outside the U.S.) that disclosed cash parked overseas. Cash parked overseas is prorated in some cases to reflect just cash, cash equivalents and short term investments and exclude long term and other investments.
Source: Calcbench, Company data, Credit Suisse estimates

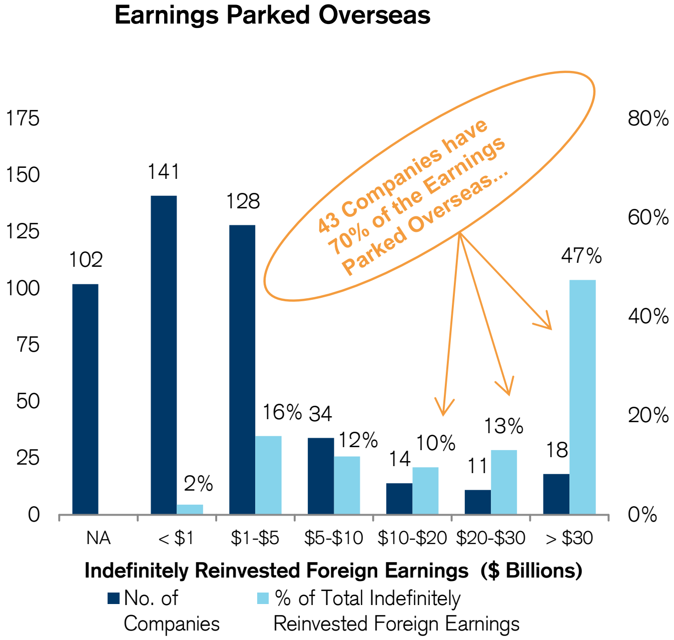
Why the high level of cash and earnings parked overseas for the Tech and Health Care sectors? It's some combination of highly profitable and sizable foreign businesses, the U.S. parent not needing access to the foreign capital (maybe because it generates enough cash or it has other sources of financing), potential investment opportunities overseas and maybe even some profit shifting.

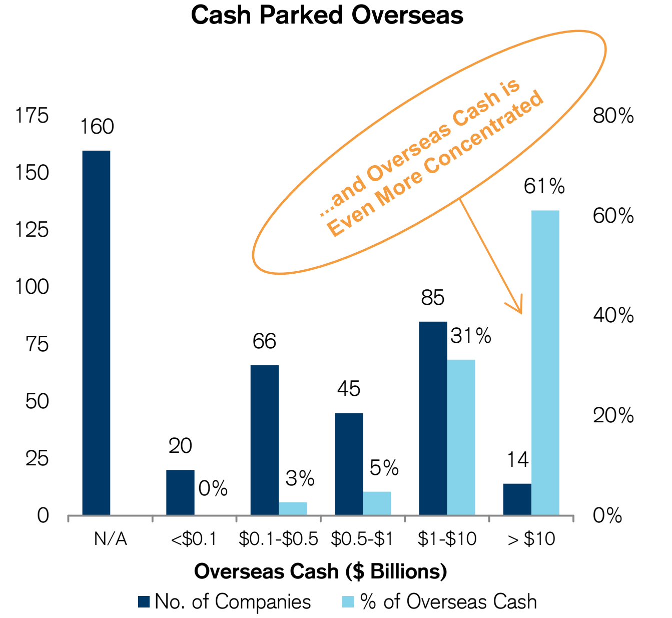
Remember the key profit driver for both of these sectors is highly mobile intellectual property; that is unique and hard to value, making it difficult for the IRS to challenge the supposed arms-length intercompany transactions used to move it. Put the intellectual property in just the right low tax place and the profits will flow there resulting in a lower tax rate but trapped cash. In addition, countries around the world are eager to attract new economy jobs, so they offer strong tax incentives to companies. For example, Cisco saved $1.3 billion or $0.25 per share in 2014 because of foreign tax incentives.

Concentrated by Company Too

Both the earnings and cash parked overseas are highly concentrated at the company level too. On the left side of Exhibit 13 you can see that around 60% of the total earnings parked overseas for the S&P 500 is with just 29 companies and on the right side of Exhibit 13 just 12 companies account for over 60% of the total overseas cash. Even though those companies represent just 31% and 19% respectively of the market cap for the S&P 500 (ex-Financials).

Exhibit 13: Distribution of Earnings and Cash Parked Overseas





Note: Earnings parked overseas analysis includes S&P 500 companies excluding REITs and companies domiciled outside the U.S. Cash parked overseas analysis includes S&P 500 companies excluding Financials, REITs and companies domiciled outside the U.S.
Source: Company data, Credit Suisse estimates

At the top of the list: the ten companies with the largest amount of earnings parked overseas are on the left of Exhibit 14 and account for nearly 33% of the S&P 500 total. While the ten companies with the most overseas cash are on the right of Exhibit 14 and they make up more than 53% of the disclosed overseas cash. Note that IBM and Exxon Mobil each have more than $50 billion in earnings parked overseas but don't disclose overseas cash.

Exhibit 14: Top Ten Earnings and Cash Parked Overseas

$ in millions		Earnings Parked Overseas				Cash Parked Overseas	
			As a %				As a % of
Ticker	**Company**	**Amount**	**of Total**	**Ticker**	**Company**	**Amount**	**Total**
GE [1]	GENERAL ELECTRIC CO	$ 119,000	5.7%	MSFT [3]	MICROSOFT CORP	$ 77,100	11.2%
MSFT	MICROSOFT CORP	92,900	4.5%	GE [4]	GENERAL ELECTRIC CO	61,100	8.9%
PFE	PFIZER INC	74,000	3.6%	CSCO	CISCO SYSTEMS INC	47,400	6.9%
AAPL	APPLE INC	69,700	3.4%	GOOGL	GOOGLE INC	38,700	5.6%
IBM	INTL BUSINESS MACHINES CORP	61,400	3.0%	ORCL [5]	ORACLE CORP	35,200	5.1%
MRK	MERCK & CO	60,000	2.9%	PFE [6]	PFIZER INC	26,122	3.8%
JNJ [2]	JOHNSON & JOHNSON	53,400	2.6%	AMGN	AMGEN INC	25,700	3.7%
CSCO	CISCO SYSTEMS INC	52,700	2.5%	AAPL [7]	APPLE INC	22,147	3.2%
XOM	EXXON MOBIL CORP	51,000	2.5%	KO	COCA-COLA CO	19,500	2.8%
GOOGL	GOOGLE INC	47,400	2.3%	HPQ [8]	HEWLETT-PACKARD CO	15,133	2.2%
Top 10 Total		**$ 681,500**	**32.9%**	**Top 10 Total**		**$ 368,102**	**53.3%**

Note: Overseas cash as of the end of the last fiscal year ending on or before 12/31/2014. When the overseas cash amount disclosed by a company includes long term investments, it is prorated to exclude long term investments.
1: The lower tax rates on the indefinitely reinvested foreign earnings in 2014 provided a tax benefit of $2.3 billion.
2: The $53.4 billion may include amounts that are not indefinitely reinvested.
3: As of June 30, 2014, approximately 84% of the cash equivalents and short-term investments held by MSFT's foreign subsidiaries were invested in U.S. government and agency securities, approximately 5% were invested in corporate notes and bonds of U.S. companies, and approximately 1% was invested in U.S. mortgage-backed securities, all of which are denominated in U.S. dollars. The amount of cash, cash equivalents, and short-term investments held by foreign subsidiaries subject to other restrictions on the free flow of funds (primarily currency and

other local regulatory) was $2.6 billion

4: Total cash includes $2.8 billion held in countries with currency controls that may restrict or limit their ability to transfer the funds to the U.S. GECC held about $20 billion that were subject to regulatory restrictions. Of the overseas cash amount of $61.1 billion, $12.2 billion is considered indefinitely reinvested.

5: A significant portion of the overseas cash is subject to foreign exchange translation adjustments. The translation adjustments are recorded on the balance sheet and are also presented on the statement of comprehensive income. According to the company, modest strengthening of the dollar against major international currencies led to a decrease in the reported dollar value (as of fiscal year ending May 31, 2014) of the overseas cash held by the foreign subsidiaries as of the previous fiscal year ending May 31, 2013.

6: The company disclosed that it holds up to $10 billion of short term funds in the U.S. We assume that they have $10 billion (of the total cash and cash equivalents of $36.1) in the U.S. Also note that the company changed its wording in its latest 10-K. Until 2014 Q3, they used to say that they held between 10%-30% in the U.S.

7: Apple reported that they held $137.1 billion of cash, cash equivalents and marketable securities overseas. Marketable securities included long term investments. Cash and cash equivalents for the fiscal year ending Sep 27, 2014 were $25.1 billion while the long term investments were $130.2. We assumed that their cash and long term investments held overseas were in the same proportion as the total. Prorating the $137.1 billion held overseas resulted in overseas cash of $22.1 billion.

8: Company describes that substantially all of their cash balances are outside the U.S., which we assume as 100% overseas.

Source: Calcbench, Company data, Credit Suisse estimates

How Significant are the Earnings & Cash Parked Overseas?

It's no surprise that the companies with the most earnings parked overseas tend to be the big multinationals. But, how significant are those unremitted earnings for each company? One way to measure that is to compare the earnings parked overseas to the company's book value. Remember, the indefinitely reinvested earnings are a component of book value (as a part of retained earnings). In Exhibit 15, you can see that earnings parked overseas are becoming a larger part of total book value, it's now 33% in the aggregate and the median is 12%. It is most significant for Health Care and Tech, where it's around 77% and 66% respectively.

Exhibit 15: Earnings Parked Overseas as a Percentage of Book Value

	Earnings Parked Overseas/Book Value									
Sector	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Consumer Discretionary	6%	7%	9%	17%	14%	14%	19%	23%	23%	24%
Consumer Staples	20%	21%	24%	32%	36%	36%	42%	47%	49%	56%
Energy	22%	23%	24%	26%	21%	19%	20%	21%	22%	19%
Financials	4%	5%	7%	8%	8%	8%	8%	9%	9%	9%
Health Care	26%	37%	50%	62%	49%	54%	63%	70%	72%	77%
Industrials	16%	21%	25%	36%	36%	37%	43%	50%	47%	54%
Information Technology	14%	18%	27%	34%	38%	42%	49%	55%	60%	66%
Materials	33%	35%	34%	46%	42%	40%	42%	45%	45%	55%
Telecommunication Services	3%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Utilities	1%	1%	1%	1%	1%	2%	2%	2%	3%	2%
S&P 500	**12%**	**15%**	**18%**	**24%**	**22%**	**23%**	**26%**	**29%**	**31%**	**33%**
S&P 500 (ex-Financials)	**16%**	**19%**	**23%**	**31%**	**29%**	**30%**	**35%**	**39%**	**41%**	**44%**

Note: Analysis excludes Financials, REITs and companies domiciled outside the U.S.

Source: Calcbench, Compustat, Company data, Credit Suisse estimates

When you get down to individual companies, there are 51 companies where the earnings parked overseas in the most recent fiscal year are greater than total book value and 14 companies where it is more than two times book. For the four companies in Exhibit 16 the earnings parked overseas are more than five times book value. Of course, there are potential issues with using book value here. Some companies may have intangible assets that are quite valuable but are not on the balance sheet or they have assets that are held at historical cost, but are quite valuable now, buybacks can bring down book value too.

Exhibit 16: **Companies Where Earnings Parked Overseas are More Than Five Times Book Value, S&P 500**

$ in millions

Ticker	Company	Sector	Indefinitely Reinvested Foreign Earnings	Book Value	Indefinitely Reinvested Foreign Earnings/Book Value
ABBV	ABBVIE INC	Health Care	$23,000	$1,742 [1]	1320%
KMB	KIMBERLY-CLARK CORP	Consumer Staples	8,600	729 [2]	1180%
PBI	PITNEY BOWES INC	Industrials	830 [3]	77 [4]	1082%
IBM	INTL BUSINESS MACHINES COF	Information Technology	61,400	11,868	517%

Note: Book value is common shareholders' interest in the company.

1: FX translation losses resulted in a hit to equity (through other comprehensive income) of $1.1 billion in 2014. With the strengthening of the dollar since the beginning of the year, their book value at the end of this quarter could be even lower.

2: $835 million of FX translation losses in 2014. With the strengthening of the dollar since the beginning of the year, their book value at the end of this quarter could be even lower.

3: Includes some amount that can be remitted substantially free of additional taxes and may not be indefinitely reinvested.

4: PBI has retained earnings of $4.9 billion but the treasury stock they hold is offsetting it by about $4.5. This is an example of a company where buybacks reduced the book value.

Source: Calcbench, Compustat, Company data, Credit Suisse estimates

Cash Versus Market Cap

When it comes to measuring the significance of overseas cash we like to compare it with market cap. That's because cash vs market cap gets used by some folks to set a valuation floor (i.e., the stock shouldn't trade below a certain price because of the amount of cash on the balance sheet) and to support a valuation (i.e., the stock looks cheap because of all the cash that the company has). But with so much cash outside the U.S., you need to consider the potential tax hit and limited flexibility, before you give companies full credit for the cash on their balance sheet, it might be worth less than you think. For example, Avon noted the following in its most recent 10-K:

Be careful giving companies full credit for the cash on their balance sheet.

> *"we continue to assert that our foreign earnings are not indefinitely reinvested, as a result of our domestic liquidity profile. Accordingly we adjusted our deferred tax liability to account for our 2014 undistributed earnings of foreign subsidiaries and for earnings that were actually repatriated to the U.S. during the year."*

For the entire S&P 500 cash is now at 9% of market cap. Once again the tech and health care sectors stand out, with cash to market cap of 20% and 11% respectively. If we zero in on the 230 companies that disclose how much cash they have overseas, total cash is nearly 11% of market cap with the overseas cash at 7% and the domestic cash at 4%.

There are 39 companies where overseas cash is more than 10% of market cap (more than half are in the Tech and Health Care sectors), including the eight companies in Exhibit 17 where the cash parked overseas is more than 20% of market cap. How have you factored that into your valuation?

Exhibit 17: Overseas Cash As a Percentage of Market Cap

$ in millions

Ticker	Company	Sector	Cash Parked Overseas: Amount	Cash Parked Overseas: As a % of Market Cap
NTAP [1]	NETAPP INC	Information Technology	$ 4,300	36%
CSCO [2]	CISCO SYSTEMS INC	Information Technology	47,400	31%
HPQ [3]	HEWLETT-PACKARD CO	Information Technology	15,133	24%
FSLR	FIRST SOLAR INC	Information Technology	1,400	23%
GE [4]	GENERAL ELECTRIC CO	Industrials	61,100	23%
NVDA	NVIDIA CORP	Information Technology	2,610	22%
AMGN	AMGEN INC	Health Care	25,700	21%
MSFT [5]	MICROSOFT CORP	Information Technology	77,100	21%

Note: Overseas cash as of the end of the last fiscal year ending on or before 12/31/2014. When the overseas cash amount disclosed by a company includes long term investments, it is prorated to exclude long term investments. Market Cap as of 2/27/2015.

1: Company warns of adverse tax consequences if it is forced to repatriate and discusses raising debt or equity if needed to fund domestic operations, pay dividends, buyback stock etc.

2: Overseas cash amount includes publicly traded debt and equity securities.

3: Company describes that substantially all of their cash balances are outside the U.S., which we assume as 100% overseas.

4: At December 31, 2014, $2.8 billion of GE cash and equivalents was held in countries with currency controls that may restrict the transfer of funds to the U.S. or limit its ability to transfer funds to the U.S. without incurring substantial costs. These funds are available to fund operations and growth in these countries and it do not currently anticipate a need to transfer these funds to the U.S.

5: As of June 30, 2014, approximately 84% of the cash equivalents and short-term investments held by MSFT's foreign subsidiaries were invested in U.S. government and agency securities, approximately 5% were invested in corporate notes and bonds of U.S. companies, and approximately 1% were invested in U.S. mortgage-backed securities, all of which are denominated in U.S. dollars. The amount of cash, cash equivalents, and short-term investments held by foreign subsidiaries subject to other restrictions on the free flow of funds (primarily currency and other local regulatory) was $2.6 billion

Source: Compustat, Company data, Credit Suisse estimates

Appendix A

Google's Response (12/20/13) to an SEC Comment Letter on Indefinite Reinvestment Criteria

SEC Comment

5. We note your response to prior comment 5. Please describe in greater detail the specific plans for reinvesting your undistributed earnings indefinitely. In this regard, we note that your response identifies specific needs and expectations, however, you do not cite specific plans of how you will reinvest the earnings in your foreign subsidiaries. Quantify the amount of reinvestment of undistributed earnings for each period presented. In addition, please explain how you considered the significant increases in the amount of undistributed earnings during the past three years when evaluating the indefinite reversal criteria in accordance with ASC 740-30-25-17 and 18.

Google's Response

As noted in our response to prior Comment No. 5, we consider various factors in accordance with the provisions of ASC 740-30-25-17 and 18 in our regular review and affirmation of the need to continue to indefinitely reinvest our foreign earnings. The main factors considered are the funding requirements outside the U.S. for market growth and expansion, and financial requirements of our U.S. companies and operations. In response to the Staff's current comment, we have outlined our specific plans for reinvesting our undistributed foreign earnings indefinitely in more detail as follows.

Foreign Operations

With respect to the funding requirements for market growth and expansion outside the U.S., we expect a significant portion of our future expansion will continue to be driven by foreign operations outside the U.S. In fiscal year 2012, approximately 50% of our revenues were generated in non-U.S. markets. Accordingly, we have significant financial needs outside the U.S. to fund our continued market growth and expansion through mergers and acquisitions, on-going research and development, and investments in datacenter and other infrastructure and real property. Google had approximately $18 billion, $25 billion, and $33 billion of cumulative indefinitely reinvested non-U.S. earnings as of December 31, 2010, 2011 and 2012, respectively. While this analysis was completed as of our 2012 year-end, we anticipate that any annual incremental growth in the cumulative indefinitely reinvested non-U.S. earnings from year to year will continue to scale at a consistent rate with our overall needs to support continued expansion plans in future years. The following are the anticipated needs for uses of cumulative indefinitely reinvested non-U.S. earnings.

Merger and Acquisition Activities ($20 to $30 billion)

We continue to expect substantial use of our offshore earnings for acquisitions as our global business has expanded into other product offerings like mobile devices where our competitors and business partners are no longer primarily U.S. based multinationals, thereby creating the potential for more foreign acquisitions as part of our overall growth strategy. In the past few years we have completed significant acquisitions with the individual deal size increasing in more recent years, and this trend is likely to continue in future years. In 2013, through the beginning of December, Google spent about $1.4 billion on more than 20 strategic deals, including the $1 billion acquisition of Waze, which was fully funded by our cumulative indefinitely reinvested non-U.S. earnings. Further, we recently pursued but discontinued a potential buyout of a foreign company, with a valuation estimated in the range of $4 to $5 billion. In 2012, Google spent about $13.6 billion for various acquisitions including the acquisition of Motorola Mobility for $12.4 billion. In addition to using offshore earnings to acquire foreign targets, our existing cost sharing arrangement requires our foreign affiliates to fund the acquisition of the foreign technology rights of our domestic targets to comply with U.S. tax law. As approximately 50% of our revenues are generated in non-U.S. markets, this will result in a significant use of foreign earnings for both domestic and foreign acquisitions.

Accordingly, we continue to believe that it is reasonable to forecast that Google needs between $20 to $30 billion of foreign earnings to fund potential acquisitions of foreign targets and foreign technology rights from U.S. targets in 2013 and beyond.

Capital Expenditures ($2 to $4 billion)
We continue to increase our datacenter presence outside of the U.S. as our business evolves to include more "cloud" and content based offerings and such offerings gain more acceptance in foreign markets. Over the past few years, we invested billions of dollars in new datacenter facilities and equipment, as well as replacements of old datacenter equipment with newer and more technologically advanced and energy efficient equipment. In addition, we have specific plans to continue the recent practice of buying property rather than leasing, resulting in the need for significantly more foreign funding of our strategic property purchases outside the U.S. For example, in fiscal year 2011, we acquired two buildings in Dublin and opened a research center in France, and earlier this year, we announced a very significant land purchase and construction project for our new office space in London. For 2013, Google estimated it would have capital expenditures in the EMEA and JAPAC regions that would exceed $1 billion with the recent practice of buying property rather than leasing. We believe it is very possible that we will spend $4 billion for strategic property purchases in 2013 and beyond.

Intercompany Charges ($12 to $14 billion)
Google has an R&D cost sharing agreement which requires that the worldwide IP development costs be shared each year between our U.S. and foreign affiliates based on the relative size of these markets for our business. In fiscal 2012, we spent approximately $6.8 billion on research and development costs globally, of which approximately 50% was funded by foreign earnings. Additionally, foreign affiliates are required by U.S. tax law to fund certain other non-R&D costs associated with running our global business. For 2012, the funding of these costs was approximately $1 billion. These costs have increased over the years so we anticipate an increase in the required foreign funding amounts in 2013 and beyond.

U.S. Operations
With respect to financial requirements of our U.S. parent and U.S. operational and fiscal objectives, we currently have significant financial resources within the U.S. and our anticipated U.S. financial requirements are not expected to require repatriation of the undistributed foreign earnings of our foreign subsidiaries in the foreseeable future.

Significant U.S. Cumulative Earnings
As of December 31, 2012, we had approximately $15 billion in cumulative earnings in our U.S operations.

Ready Access to Capital/Debt Markets
In 2011, we issued $3 billion in bonds with a blended interest rate under 3%, and we have in place an active $3 billion commercial paper program which provides us access to capital at nominal interest rates. Considering our recent borrowing at very favorable rates, combined with our operational performance, and U.S. liquidity, we believe we can obtain additional funds in the U.S., if necessary, at low cost to us on the open market.

The ability to fund our U.S. operations with historic earnings and the financial requirements outside of the U.S. that are noted above have led us to determine the amount of undistributed earnings of our foreign subsidiaries to be indefinitely reinvested outside of the U.S. This determination is consistent with our historical practice of not repatriating amounts we have deemed indefinitely reinvested.

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Companies Mentioned *(Price as of 16-Mar-2015)*

AbbVie Inc. (ABBV.N, $59.12)
Amazon com Inc. (AMZN.OQ, $373.35)
Amgen Inc. (AMGN.OQ, $163.03)
Apple Inc (AAPL.OQ, $124.95)
Avery Dennison Corp. (AVY.N, $52.69)
Baxter International Inc. (BAX.N, $68.43)
Cameron International Corp. (CAM.N, $43.62)
Cisco Systems Inc. (CSCO.OQ, $28.3)
Diamond Offshore Drilling, Inc (DO.N, $27.32)
ExxonMobil Corporation (XOM.N, $84.76)
First Solar (FSLR.OQ, $60.22)
General Electric (GE.N, $25.45)
Genworth Finl (GNW.N, $7.43)
Google, Inc. (GOOGL.OQ, $561.64)
Hewlett Packard (HPQ.N, $32.38)
International Business Machines Corp. (IBM.N, $157.08)
Johnson & Johnson (JNJ.N, $101.06)
Kimberly-Clark Corporation (KMB.N, $106.43)
Merck & Co., Inc. (MRK.N, $57.12)
Micron Technology Inc. (MU.OQ, $28.5)
Microsoft Corporation (MSFT.OQ, $41.56)
NVIDIA (NVDA.OQ, $22.97)
NetApp (NTAP.OQ, $37.16)
Oracle Corporation (ORCL.N, $43.41)
Owens Illinois (OI.N, $23.2)
Pfizer (PFE.N, $34.44)
Phillips-Van Heusen (PVH.N, $94.35)
The Coca-Cola Company (KO.N, $40.29)
Thermo Fisher Scientific Inc (TMO.N, $132.97)
Western Digital Corp. (WDC.OQ, $98.2)
Western Union (WU.N, $19.61)
Xerox (XRX.N, $12.89)
Yahoo Inc. (YHOO.OQ, $43.51)

Disclosure Appendix

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Restricted	3%	

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